FINANCIAL SECRETARIAT.

SANCTIONING THE INTRODUCTION OF THE ISSUE OF "INCOME POLICIES" IN CONNECTION WITH THE STATE LIFE INSURANCE.

READ—

Letter No. 3857, dated 24th August 1927, from the Secretary, Mysore State Life Insurance Committee, forwarding for orders of Government the Resolution of the Committee on the subject of introducing a scheme of "Term Annuities" or "Income Policies" for the benefit of the insured in the Official and Public Branches and their dependants together with the opinion thereon of Mr. George King, Actuary, London.

"I have the honour to state that in pursuance of the last Resolution of the Insurance Committee, passed at its meeting held on the 29th January 1927, copy of which was forwarded to you with my letter No 15618, dated 8th February 1927, Mr. George King, F.I.A., F.F.A., Actuary, was consulted in the matter of introducing an Annuity Scheme for the benefit of the insured in both the Official and Public Branches. His reply dated 28th April 1927, stating that under many circumstances it would be very useful and suggesting that rates of interest to be adopted for purposes of calculation of annuities was circulated to the Members and the question was finally considered in all its aspects at the Committee Meeting held on 6th instant.

There appeared to be consensus of opinion as to its utility and adoption here. A copy of the Resolution passed by them is herewith submitted for favour of sanction of Government being obtained thereto.

The entire file of papers explaining the object and scope of the scheme is also forwarded herewith for reference and obliging return. It may be seen that the Scheme is proposed to be made entirely optional. As explained by Mr. George King, there is no element of risk, the only factors to be considered being those of interest and expenses of management. On these points the Committee have expressed their opinion which may kindly be accepted under the circumstances set forth by them in the Resolution.

On receipt of Government sanction to the Schemes, necessary Rules will be framed therefor and submitted to Government for approval and further orders."

Resolution passed by the Mysore State Life Insurance Committee at its Meeting held on the 6th August 1927.

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III. Letter dated 28th April 1927, received from Mr. George King, F.I.A., F.F.A., in the matter of issuing annuities instead of payment of assurance in lumpsum at the option of the Insured.

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The Scheme was discussed and generally approved. It was resolved that the Scheme as noted below, be submitted to Government for sanction:—

(1) That the Scheme be worked as an independent branch of the Insurance Office and attached to the Public Branch.

(2) That those who have insured in the Official and Public Branches or their beneficiaries after death be allowed to exercise their option of having the whole or a part of the sum assured converted into term annuities fixed for ten years or any multiple of five years thereafter up to a maximum period of 30 years.

(3) That the rate of interest to be adopted as the basis of calculation as advised by the Actuary be assumed for the present as 4 per cent per annum subject, however, to variation at any time in respect of policies issued aftea that date.

(4) That for the present, nothing be charged for the cost of the establishment for working the scheme as such cost is expected to be small.

ORDER NO. FL. 8751-8808—G. F. 192-27-2, DATED 12TH MAY 1928.

The question of affording facilities to those who have insured in the Official and Public Branches of the Mysore State Life Insurance to provide for the maintenance of themselves or their dependants in the form of assured incomes for a term of years, has been under the consideration of the State Life Insurance Committee for some time past.

2. Many persons are unable to find safe investments for their savings and long term investments, which can be considered quite safe cannot always be had; and when money is kept in short-term deposits or bonds, there are risk and difficulties in changing investments from one form to another when the need therefor arises. There are also cases in which an assured periodical income and not the gift of a capital sum is the form of provision for maintenance which a person would desire to make for his dependants. An annuity payable during the whole life of a beneficiary is the best form of such provision, but life annuities are not quite popular. A scheme of 'Annuities Certain' under which the whole amount invested is returned with interest during a fixed number of years is, however, likely to be appreciated by persons who desire that the amounts left by them should wholly go to benefit their dependants.

3. In view of these considerations, the Insurance Committee have submitted for sanction a scheme of 'Term Annuities' also styled 'Income Policies' according to which the insured in the Official and Public Branches, or after the death of the insured their beneficiaries, may be allowed the option of having the whole or part of the sums assured converted into annuity payments calculated on the basis of a reasonable rate of interest, for a term of years up to a maximum period of 30 years. The Committee have proposed to work the scheme as an adjunct of the State Life Insurance without charging anything on account of establishment as the outlay involed for the present is expected to be inappreciable.

4. Government generally approve of the Committee's proposals. They, however, consider that the scheme which involves no element of insurance need not be confined to the Insured and that it may be thrown open to the public in general. The only important factor in the Scheme is the return on the investment to the purchaser of the annuity or income policy. The interest rate to be assumed in the calculation of annuities will naturally depend upon the conditions of the money market as they are expected to stand from time to time.

5. Government are pleased to sanction the introduction of the issue of 'Income Policies' on the following lines which include some provisions intended to popularise the measures:—

(*a*) The period of the policies will be not less than 10 and not more than 30 years.

(*b*) The rate of interest for calculation of periodical payments will, until further orders, be fixed at 4½ per cent per annum. When there is need for altering it, the rate will be changed without notice, but annuity contracts or income policies purchased prior to the date of alteration will not be affected by the revision in the rate of interest.

(*c*) The scheme will be thrown open to the public in general.

(*d*) The annuity payments made to beneficiaries will be exempt from Income-tax, but they will be taken into computation of total income for fixing the liability to and rate of Income-tax.

(*e*) It is proposed to exempt from attachment by Civil Courts Annuity payments not exceeding Rs. 240 per annum.

(*f*) The scheme will be worked by the Insurance Committee as an annexe of the State Life Insurance and no cost on account of establishment for working it will be charged to the scheme for the present.

(*g*) The scheme will be introduced from 1st July 1928, and will be in force for a period of 5 years in the first instance.

(*h*) Detailed rules and tables of annuity payments for working the scheme will be framed by the Insurance Committee and submitted for the approval of Government.

The rules should provide among other matters, for the issue of 'Income Policies' for securing immediate or deferred payments; for the payment of the purchase money in one lumpsum or in instalments; and for obtaining periodical payments monthly, quarterly, half-yearly or annually, at the option of applicants. Proposals should also be submitted by the Insurance Committee for the investment of surplus funds and for the preparation and submission of the annual accounts and balance sheet to Government.

B. SREENIVASA IYENGAR,
Secretary to Government,
Financial Department.